

**UNEMPLOYMENT
INSURANCE
AGENCY**

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How severance pay affects unemployment benefits

What is severance pay?

Severance pay is a payment made by the employer when the employee is separated from the job. While severance pay is not considered as wages and cannot be used to determine the worker's weekly unemployment benefit amount, it will reduce the amount of unemployment benefits a worker might receive.

Severance pay can reduce a worker's unemployment benefit

The severance payment, like any other kind of "remuneration," will reduce unemployment benefits otherwise payable in the weeks to which the severance payment is allocated or distributed. If there is no allocation by contract or by the employer, then the reduction in unemployment benefits will occur only in the week in which the severance payment is actually made.

Depending on the amount of severance pay, it can reduce a worker's unemployment benefits in the following ways:

- If the severance payment attributed to a week equals or exceeds 1½ times the worker's weekly benefit amount, then the unemployed worker is entitled to **no** unemployment benefits for the week.
- If the worker's severance payment is less than 1½ times his/her weekly benefit amount but greater than the weekly benefit amount, then the full amount of the severance payment is subtracted from 1½ times the worker's weekly benefit amount. (The balance of weeks remaining on the unemployed worker's claim will be reduced by one week, if the worker claims benefits for that week).
- If the severance payment is equal to, or less than, the worker's weekly unemployment benefit amount, then half the payment is subtracted from the worker's weekly benefit. (The balance of weeks remaining on the unemployed worker's claim will be reduced by one week if the unemployed worker claims that week.)

Lump Sum versus Continuing Payments:

In some cases, the employer may make a lump sum severance payment when the worker is separated from the job. If the employer allocates the severance payment to a week or weeks other than the week in which the payment is made, then the worker's weekly unemployment benefits will be reduced in each week for which the severance payment is allocated.

If the employer makes a lump sum severance payment but does not allocate that severance payment to a week or weeks, then the severance payment will reduce the unemployment benefits only in the week in which the lump sum severance payment is made.

If the employer makes weekly or monthly severance payments (sometimes referred to as salary or wage continuation payments), then the severance payment will be used to reduce unemployment benefits in the week in which the severance is paid, unless the employer allocates the severance payments to other weeks.

Examples:

#1 – The unemployed worker becomes unemployed after working full-time during week ending September 7. The employer pays the unemployed worker \$5,000 in severance payment in that week and does not allocate the severance payment to any period. The unemployed worker files a new claim the following week. The worker's benefits are not reduced, as the severance payment was paid prior to the start of the claim and was not allocated to any period for which the unemployed worker was claiming benefits.

#2 – Same facts as in Example 1, except the employer allocates the lump sum severance payment to the six weeks following the job separation. Unless the employer specifies how much will be allocated per week, UIA will equally allocate the payment over the six weeks, reducing the unemployment benefit for each of those six weeks. The allocated payment would not be used for benefit payment purposes on a later claim.

#3 – If the employer makes wage continuation payments weekly, for the one-year period following the job separation, benefits would be reduced accordingly in each week. These payments would not be used as "wages" for a later benefit claim.



Michigan Department of Energy, Labor & Economic Growth
Unemployment Insurance Agency
Authority: UIA Director; Quantity: 1,000
Cost: \$14 (1.4¢/copy). Paid for with federal funds.

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